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P 060818Z JUN 06
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 2904
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 2652
RUEHBY/AMEMBASSY CANBERRA 1669
RUEHNE/AMEMBASSY NEW DELHI 8040
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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 003105

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E.O. 12958: DECL: 06/05/2016
TAGS: [ECON](#) [ETRD](#) [ASEAN](#) [APEC](#) [CH](#) [KS](#) [AS](#) [IN](#) [NZ](#) [JA](#)
SUBJECT: METI'S KITAMURA PROMOTES ASIA FTA AS DEFENSE
AGAINST CHINA'S INFLUENCE ON ASEAN

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Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b/d).

¶1. (C) Summary: METI Minister Nikai's proposal for an Asian FTA was an alternative to an "aggressive" Chinese push for an ASEAN 3 FTA, METI Trade policy DG Toshiaki Kitamura told visiting EAP/PDAS Kathleen Stephens on May 29. The Chinese plan, which will be recommended by an ASEAN 3 expert group soon, would be objectionable because it would increase China's influence over ASEAN and would set a poor standard by covering only trade in goods. Therefore, the Nikai idea expanded the proposed FTA to include India, Australia and New Zealand and to cover services, IPR and investment. While Japan, and METI in particular, remained committed to strengthening APEC, APEC could not serve as an effective alternative to the Chinese proposal because it was not realistic to talk about an APEC FTA for decades, Kitamura said. Nevertheless, he proposed the need to agree on a roadmap to strengthen APEC by the ministerial to be held in Tokyo in 2010. Stephens said that the U.S. would be concerned with a pan-Asian organization that could undermine trans-Pacific ties and that the U.S. approach to the region emphasized APEC, ARF and robust bilateral FTAs, which were the most practical. Both agreed to continued discussions on East Asian economic architecture.

¶2. (C) On related issues, Kitamura said the lack of U.S. cabinet-level participation in ASEAN meetings in recent years, the change of USTR at a critical junction in the Doha round, and the hold placed on Ambassador Schwab's nomination created a negative impact in the Region. Stephens stressed that Secretary Rice was looking forward to participation in the ASEAN ministerial and that we expected Ambassador Schwab's confirmation would move forward. Stephens also stressed the need to resolve the beef issue. End Summary.

¶3. (C) Stephens opened by noting that the issue of East Asian economic architecture was being closely studied in Washington. While the process was not complete, there were several areas of clear agreement: APEC was extremely important and needed to be more outcome oriented; ties with ASEAN should be strengthened; robust FTAs should be pursued in the region, and it was more practical to do this on a bilateral basis; and, we should talk to allies about how

these elements and others fit together. In this context, the U.S. was surprised by Nikai's proposal for an Asian FTA.

¶4. (C) Kitamura explained that ASEAN, as a group, was becoming the "hub" of a system of FTAs. They had concluded one with China and the Korea agreement will take effect in the middle of the year. Japan and ASEAN had agreed to conclude their FTA by March 2007. ASEAN was also negotiating FTAs with India and Australia and New Zealand and was aiming to finish those in 2007. It was only logical that once these FTAs were finished that they form the basis for an Asia wide FTA.

¶5. (C) As if to address the "surprise" issue, Kitamura noted that since January of 2002 PM Koizumi had been supportive of an East Asian Community. What prompted Nikai to make his proposal now, however, was that an ASEAN 3 expert committee would recommend to the ASEAN 3 summit in August that an ASEAN 3 FTA that covered trade in goods only be negotiated soon. This was the latest in an "aggressive" push by China for such an FTA. Japan had initially opposed creation of the expert group as premature, but consented when it was isolated. A Chinese scholar who was controlled by the government chaired the group, but the GOJ did not control Japanese participants. If there were no other alternative on the horizon, the "Chinese" proposal would be accepted. If such an FTA were concluded, it would increase Chinese influence in ASEAN while at the same time providing an FTA without several protections important to Japanese business. Therefore Nikai felt he had to act quickly and without consultation. The proposal would fix the Chinese plan by adding India, New Zealand and Australia and expanding the scope to cover IPR, investment and trade in services. Kitamura admitted that so far the plan was "just a concept by METI". Kitamura understood that Ambassador Schwab had said in Paris the previous week that the U.S. was "not excited"

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about the Nikai plan. However, which would the U.S. rather have, the Nikai plan or the Chinese, Kitamura asked.

¶6. (C) Turning to APEC, Kitamura said METI was committed to APEC, which was "our brainchild". However, an APEC wide FTA was decades away so the idea would not be enough to trump the Chinese proposal. However, at the APEC Trade Ministerial in Hanoi that week, Nikai would try to talk to the U.S., Australia and New Zealand about strengthening APEC. Little could be expected from the Hanoi and Lima APEC summits. What Japan would like is a road map of how to strengthen APEC by the time of the Tokyo summit in 2010. Japan's commitment to APEC was demonstrated by the offer to host the summit, which would be in a critical year for APEC, the year in which the trade liberalization ideals for developed countries in the Bogor declaration were supposed to be fulfilled. As an aside, Kitamura said that the change in USTR, the hold put on Ambassador Schwab, and the lack of U.S. cabinet participation in APEC meetings in recent years created a bad impression in the region.

¶7. (C) In response, Stephens said that, while Japan and the U.S. had the same objectives, they had different approaches. Although the development of pan-Asian organizations was natural, the effect of such proposals on trans-Pacific relations needed to be considered. In terms of FTAs, it was better to concentrate on strong bilateral FTAs than to try to include too many countries and end up with weak agreements. The U.S. commitment to the region was shown in the robust FTAs it was pursuing. While the Chinese favored FTA would be a concern to the U.S., Nikai's plan is perhaps not the best alternative. We need to consult. The U.S. is interested in strengthening APEC and the Australians are committed to doing this in the summit they will host in 2007. We would like to hear more about the roadmap and we need to develop concrete ideas for APEC, Stephens said. Kitamura and Stephens agreed on the need for Japan and the U.S. to continue to consult on East Asian economic architecture.

18. (U) PDAS Stephens has cleared this cable.
SCHIEFFER